

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

DTX5024 – TAXATION 2

(All Sections/Groups)

2 MARCH 2020

9.00 a.m. - 12.00 p.m.

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 12 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1**Part A**

Kenshi Manufacturing Sdn Bhd (the company) carries on the business of manufacturing electric components in Nilai 5. It was incorporated with a paid up capital of RM5 million of which 80% are held by Malaysians. The accounts are closed on 31 December, and for the period ended 31 December 2019, the following financial information is available:

Kenshi Manufacturing Sdn Bhd
Statement of profit or loss for the period ended 31 December 2019

	Note	RM'000	RM'000
Sales			561,800
Less: Cost of sales			(379,500)
Gross profit			182,300
Add: Other income			
Interest			23
Rental	1		37
			182,360
Less: Expenses			
Salaries and wages	2	1,560	
Loan interest	3	25	
Entertainment	4	190	
Depreciation		124	
Repair and maintenance	5	534	
Bad and doubtful debts	6	314	
Motor vehicle expenses	7	107	
Lease payments	8	140	
Advertisement and publicity	9	900	
Training for employees		218	
Loss on disposal of machinery		23	
Professional fees	10	112	
Insurance	11	55	
Donation	12	35	4,337
Profit before taxation			178,023

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Notes to the account:**1. Rental**

The company received RM37,000 from a company for renting out a space in its premises.

2. Salaries and wages

This expenditure includes a sum of RM580,000 paid to a director and contributions for him to the Employee's Provident Fund amounting to RM130,000.

3. Interest

The company paid interest on a loan taken from a local bank. RM10,000 was interest on a loan for investment purposes and the balance of RM15,000 is for working capital.

4. Entertainment

Particulars	RM'000
(a) Company annual dinner	47
(b) Payment to the company's marketing staff to disburse their entertainment expenses	88
(c) Entertainment for foreign customers	24
(d) Entertainment for potential customers	31
Total	<u>190</u>

5. Repair and maintenance

Included in the repair and maintenance account is a sum of RM200,000 to replace the old wire perimeter fence of the factory building with a new reinforced concrete wall. The balance refers to repairs of plant and machinery.

6. Bad and doubtful debts

The company's bad and doubtful account is as summarized below:

Particulars	RM'000
(a) Trade debtors written off	114
(b) General provision for bad debts	50
(c) Specific provision for bad debts	82
(d) Non trade debt	43
(e) Bad debts written off being advance to supplier	25
Total	<u>314</u>

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7. Motor vehicle expenses

The company incurred RM23,000 for compounds and fines for traffic offences on behalf of its company drivers while RM84,000 was spent on vehicle maintenance charges.

8. Lease payments

The lease payments also include a lease payment of RM60,000 to a leasing company for the lease of a car. The car was bought for RM70,000 in 2017. The car had an accumulated lease rental for RM48,000.

9. Advertisement and publicity

Expenses charged into this account include sponsoring of cultural and heritage activity approved by the Ministry of Information, Communication and Culture costing RM800,000, made up of RM320,000 foreign arts activity and RM480,000 local arts activity. The balance refers to trade advertisements in the local print media.

10. Professional fees

During the year, the company had incurred and paid the following professional charges:

Particulars of expenditure	RM'000
(a) Termination of a supply contract which was proving to be unprofitable	10
(b) Guarantee fee on a bank loan for the company's director	5
(c) Secretarial fees	12
(d) Tax filing fees	18
(e) Income tax appeal	15
(f) Accounting and auditing fee	<u>52</u>
Total	<u>112</u>

11. Insurance

During the year the company imported components from China and paid to a Malaysian insurance company for RM20,000. Company incurred sum of RM16,000 premium insurances for office building. The remaining incurred on key-man endowment policy for managing director, amounting to RM19,000.

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12. Donation

The donation was a contribution of RM35,000 cash to a local school library.

13. Other information:

For the year of assessment 2019, the company is claiming capital allowance of RM65,000 on its assets used in the business and balancing allowance of RM18,000. Balancing charge for the year of assessment 2019 is RM27,500.

Required

Based on the information given, compute the statutory income of Kenshi Manufacturing Sdn Bhd for the year of assessment 2019. (18 marks)

Part B

All withholding tax payments (other than for non-resident public entertainers) must be made with the relevant payment forms, duly completed, together with copy of invoices issued by the non-resident payee and copy of payment documents as proof of date of payment.

Required

Define withholding tax. (2 marks)

(Total: 20 marks)

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QUESTION 2**Part A**

Prismatic Sdn Bhd prepares account to 31 December annually, carries on a trading business. The company incurred the following capital expenditure for the business during the year:

No	Date	Type of assets	RM
1.	1 August 2019	Air-conditioner	50,000
2.		Installation cost of air-conditioner	10,000
3.	15 February 2018	Office equipment	10,000
4.	11 August 2019	Furniture and Fittings	20,000
5.	11 July 2017	Van	80,000
The company disposed the van for RM36,000 on 30 September 2019			

Required:

Calculate the capital allowances for the assets acquired by Prismatic Sdn Bhd for the year of assessment 2019. (10 marks)

Part B

Indah Dunia Sdn Bhd made up account to 30 September annually. The company acquired a second hand car under hire purchase for its business in October 2014.

The cash price of the car is RM56,000 and the company trade in its old car for RM25,000. The company agreed of RM1,440 for 25-month instalments, commencing 1 November 2014.

Then the car was sold for RM29,680.50 on May 2019.

Required

Calculate the capital allowances for the car acquired by Indah Dunia Sdn Bhd for the year of assessment 2019. (10 marks)

(Total: 20 marks)

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QUESTION 3**Part A**

Stylo Manufacturing Sdn Bhd is a local carpet manufacturer incorporated in 2010. The company closes its accounts on 31 December each year. In 2016, the company purchased a piece of land and constructed a factory building which completed on April 2017. The relevant expenditures incurred are as follows:

Particulars of expenditure	RM
Cost of land	520,000
Legal fee (RM30,257 related to land)	42,257
Cost of clearing land	107,543
Cutting and levelling and	70,184
Excavation and preparation of site for construction	63,161
Piling and foundation works	112,356
Construction of building	312,847
Construction of wall	32,675
Architect fee-building design	104,289
Legal services for obtaining various building approval	43,765
Subcontract charges for installation of wiring and plumbing	58,907
Landscaping charges	53,050
	<u>1,521,034</u>

Part of the factory building will be used for office space, which occupied 20% of the total area. In the year of assessment 2019, Stylo Manufacturing Sdn Bhd disposed the industrial building to Be Awesome Sdn Bhd amounted to RM960,000.

The disposal price of RM960,000 includes the cost of land amounted to RM160,000. After disposal, Be Awesome Sdn Bhd uses the building for its business.

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Required

Calculate the industrial building allowance and balancing charge (if any) for both companies for the relevant years of assessment up to year of assessment 2019. (13 marks)

Part B

A taxpayer who has incurred expenditure on the construction or purchase of a building, which is used for his business is entitled to claim Industrial Building Allowance (IBA).

Schedule 3, para 63 specifies the types of building that qualify as an industrial building.

Required

- (a) Define the meaning of building?
- (b) List down types of industrial building. (7 marks)

(Total: 20 marks)

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QUESTION 4

Amir, Ben and Chandra incorporated their partnership business named ABC Partners since 2015. Their core business is supplying washing machine. Below is the Statement of Financial Performance for the year ended 31 December 2019.

ABC Partners**Statement of Financial Performance for the year ended 31 December 2019**

<u>Expenses</u>	<u>RM</u>	<u>Income</u>	<u>RM</u>
Advertisement	32,000	Gross income	245,000
Salary & EPF	80,500	Rental	35,000
Repair & Maintenance	6,000		
Depreciation	8,500		
General bad debt	5,000		
Donation	14,000		
Entertainment client	7,000		
Net profit	127,000		
	<u>280,000</u>		<u>280,000</u>

Additional information:

i) Information of partners:

			Amir	Ben	Chandra
1.	Salary (month)	RM	2,000	2,000	1,500
2.	Capital contribution	RM	30,000	20,000	15,000
3.	Interest on capital	(%)	7	6	5
4.	Profit sharing ratio		2	2	1

- ii) Repairs include replacement whole office windows with new one amounted to RM4,000.
- iii) The partnership purchased photocopy machine amounted to RM50,000 since 2018. The initial allowance is 20% and annual allowance 10%.

Required

Calculate the statutory income of each partner from the partnership for the year of assessment 2019. (Total: 20 marks)

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QUESTION 5**Part A**

Garret, a non-resident of Malaysia, bought a condominium property in Malaysia for investment and property letting purposes for RM1.5 million.

The agreement signed on 18 May 2015. Garret settled the full amount of the consideration on 17 June 2015 and the title was transferred on 10 August 2015. Garret paid stamp duty of RM46,000 and legal fees of RM14,000 on the purchase.

During the period of condominium ownership, Garret:

- i) spent RM42,000 on extending the balcony area
- ii) spent RM7,000 on repairing minor leak which occurred in the kitchen area two years after the acquisition of the condominium
- iii) instituted legal action against the condominium management body arising from dispute on the title to the property and incurred legal fees of RM6,000.
- iv) received compensation of RM65,500 as a result of damage to the condominium from his neighbour.
- v) also received RM25,300 from the insurance company for the said damage.
- vi) received a deposit forfeited of RM10,000 from a potential buyer who call off the deal.

On 17 November 2019, Garret signed an agreement with MLM Sdn Bhd to dispose of the condominium property for 2.5 million. He incurred valuation fee of RM32,000, brokerage fee RM25,500 and advertisement to find the buyer of RM1,500.

Garret has an allowable loss of RM10,000, which arose from the disposal of the commercial property in Malaysia which he had owned for two years from the date of acquisition at the time of its disposal.

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Required

- (a) Determine the acquisition price of the condominium property for Garret.
- (b) Determine the disposal price of the condominium property for Garret.
- (c) Calculate the chargeable gain subject to real property gains tax (RPGT) on the disposal of the condominium property for Garret.
- (d) State with reason, the RPGT rate application to the gain on the disposal of the condominium property for Garret. (10 marks)

Part B

Samarahan Farm (Samarahan) grows vegetables. Samarahan commenced its operations on 1 January 2016 and closes its accounts on 31 December annually. Details of the expenditure incurred by Samarahan for December 2016 and 2017 are as follows:

Assets acquired or constructed during the year ended 31 December 2016:

	RM
(i) Land	75,000
(ii) Mill	350,000
(iii) Clearing of land for cultivation	12,000
(iv) Planting of vegetable seedlings	8,000

Assets acquired or constructed during the year ended 31 December 2017:

	RM
(v) Construction of bridge	50,000
(vi) Shed for farm tools	14,000
(vii) Worker accommodation	120,000
(viii) Replanting of vegetable seedlings	3,000
(ix) Residential house used by senior manager in an estate in town about ten kilometres from the farm	150,000

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Required

- (a) Compute the agriculture allowances available to Samarahan Farm for each of the years of assessment 2016 and 2017.
- (b) Compute the agriculture charge for the year assessment 2019, if any, if Samarahan Farm disposed of the mill for RM195,000 on 15 January 2019. (10 marks)

(Total: 20 marks)

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2019:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Computers	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%

Rates of Agriculture Allowances YA 2019:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%
(e) construction of any other building (smoke house, estate office)	10%

Rates of Real Property Gains Tax YA 2019:

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	5%	10%	10%

End of Paper